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GUIDE TO THE GUARANTEED INCOME

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INTRODUCTION

Since April 1973 the federal and provincial governments have been engaged in a comprehensive review of Canada's social security system. The basic premise of the review is stated in the federal government's Working Paper on Social Security which launched the process:

The central objective of social security in Canada is an acceptable basic income for all Canadians ... For a basic income is essential if a person is to live in decency and in dignity.

Put into its simplest terms, the goal of the social security review is the establishment of a guaranteed annual income.

But what exactly is a guaranteed annual income?

This is the question which this guide will try to answer. It will present, in non-technical terms, the basic information that the ordinary citizen must have if he or she is to understand what the guaranteed income is about, and what progress towards a guaranteed income has been made by the social security review.

The first essential thing to understand about the guaranteed annual income is that the phrase has been used to describe so many different kinds of programs and proposals as to be virtually meaningless by itself. To many people the phrase implies a totally new method for providing income to those whose own income is inadequate; in this context terms such as negative income tax are often heard. However, it is not true that the guaranteed annual income is only something

for the future. Persons receiving long-term welfare have often pointed out that what they have is a guaranteed annual income - but the income that is guaranteed is inadequate and subject to an array of undesirable conditions. The federal Old Age Security and Guaranteed Income Supplement programs are other examples of existing guaranteed annual income programs. In fact, any program that sets an income floor below which a person will not be allowed to fall (i.e., an income level guaranteed by the government), and which is designed to provide the income on a long-term basis (i.e., on an annual basis, or longer if necessary), is a guaranteed annual income.

This guide will focus on some specific new proposals for a guaranteed income - the proposals that have evolved out of the social security review. It is made up of three sections.

The first section, Negative Income Tax: The Theoretical Model, gives a general description of one method for providing a guaranteed income. It explains the theory behind the proposals.

The second section, Support/Supplementation : The Proposed Programs, describes how the federal and provincial governments have tried to apply the theory in designing actual programs. It sets out what has been decided about the proposed programs, and what has been suggested by the federal government but not yet agreed to by the provinces.

The final section, History of the Social Security Review, gives a chronology of the events in the review from its start in 1973 to the present. Since the review has been concerned with subjects other than guaranteed income - it has produced some significant results in the area of social services, and less significant results in community employment - these are briefly described as well.

We hope that this guide will be a starting point to assist Canadians, both as individuals and in their organizations, to become involved in the issues of the review and to make their views known to government. This involvement will be critical if the review is to produce new programs that address themselves to the real problems faced by low-income Canadians. The point was aptly made by the federal Minister of National Health and Welfare in a speech in June 1975:

When we began the process of reviewing Canada's social security programs we were very anxious that this not simply become an "in-house" exercise for federal and provincial politicians and bureaucrats. We wanted to know that we were not the only ones concerned with these questions and we wanted to know what organizations (throughout Canada) felt the answers to those questions should be ...

(The consensus reached by the federal and provincial governments) will reflect your consensus - the consensus of Canadians as to the social security system they want us, their representatives, to provide them with. If the result is a program that is both fair and generous, both responsible and compassionate, an equitable embodiment of an enlightened society, then the credit will belong to all of us. If the result is none of these things - or merely less so than it might and should have been then that too will be a responsibility we all will share. The Canadian society of tomorrow will be as we choose to build it today.

We hope this guide will assist Canadians to participate in making that choice.

NEGATIVE INCOME TAX
The Theoretical Model

As soon as guaranteed income is discussed, two questions immediately arise: What kind of a system will be used to provide the income to people, and how will we determine the level of benefits to which a family is entitled? In trying to come up with answers to these questions, economists and others have developed a variety of "theoretical models" - general descriptions of how a guaranteed income might work. The model which is most often used, and the one which underlies the proposals that are being developed in the social security review, is the negative income tax.

In its broadest terms, the idea behind the negative income tax is to round out the income tax system so that it not only collects money from higher income families but also provides benefits to lower income families. As is well known, under the existing tax system each family is allowed a certain amount of exempt income upon which taxes are not paid; there are exemptions for the taxpayer, his/her spouse, and each of their children. If a family's income exceeds the exemption level, then the family pays taxes to the government. If its income is less than the exemption level, the family doesn't pay taxes.

The existing tax system does redistribute income since it takes more money from higher income families, and less money (or none at all) from lower income families. But it doesn't provide any additional money to those at the bottom of the income scale. The family whose income is below the exemption level for a family of its size doesn't have to pay any taxes, but neither does this family get any benefits back from the government through the tax system.

A negative income tax would go beyond this existing system by providing benefits to families with incomes below the

exemption level. The level of benefits would depend on family size and income. Larger families would get more than smaller families. As a family's income decreased, the level of benefits would increase.

The negative income tax system would, therefore, complement the normal (or "positive") income tax system. If a family's income was below a certain level, the negative income tax would determine how much that family could collect from government; if the family's income was above that level, the family would pay taxes in the normal fashion. It should be stressed that this is a general theoretical discussion, and it should not be assumed that exemption level means the existing income tax exemption.

To get down to some specifics of how it would work we have to examine three basic elements that lie at the heart of the negative income tax model. These are usually referred to by the terms "guarantee level", "reduction rate", and "break-even point".

The guarantee level is the minimum income which is guaranteed to a family. Put another way, it is the highest amount of benefit which a family can receive from the government - the amount provided to a family with no other income. Sometimes it is called the benefit level or basic guarantee.

The reduction rate is the rate at which payments are reduced for each additional dollar of income. It determines what percentage of earnings will be deducted from the guarantee level. As an example, a reduction rate of 30% means that for each dollar a family earns, 30¢ is deducted from the guarantee level; if a family were to earn \$2,000 then its benefit would be the guarantee level minus \$600 (\$600 = the family's earnings of \$2,000 times the reduction rate of 30%). This example

shows how level of entitlement can be determined: Multiply earned income by the reduction rate and subtract the result from the guarantee level.

The break-even point is that level of income at which a family ceases to obtain any benefits. In the theoretical model it is also the income level at which a family starts to pay taxes. The range of income from zero up to the break-even point is referred to as the benefit range.

A further example may help to clarify these concepts. Suppose that it was decided to set the guarantee level for a family of four at \$4,000 a year, and that the reduction rate should be 50%. Then, every family of four would be guaranteed an income of at least \$4,000 a year. For the family with no earned income whatever, this \$4,000 payment from government would obviously be the total family income. For a family with \$1,000 of earned income, the payment from government would be the guarantee level (\$4,000) minus \$500 (\$500 = earnings of \$1,000 times reduction rate of 50%), or \$3,500; this payment, combined with the family's \$1,000 in earnings, would bring total family income up to \$4,500. A family making \$2,000 in earnings would get a payment of \$3,000 [$= \$4,000 - (\$2,000 \times 50\%)$]; combined with its earnings, this payment would bring the family's total income up to \$5,000. Now consider a family making \$8,000 a year. The reduction rate (50%) times \$8,000 is \$4,000; since this is precisely the guarantee level, this family would get no payment. Families making more than \$8,000 a year would start paying taxes (in the theoretical model). In other words, in our example of a \$4,000 guarantee level and a 50% reduction rate, \$8,000 turns out to be the break-even point. Families with income below \$8,000 get a payment; that is, their income is in the benefit range.

It is hardly coincidental that once we picked a guarantee level and a reduction rate we found there was only one possible

break-even point. This is always the case. In fact, once we select values for any two of the three basic elements, the value of the third is automatically determined.

At first glance this may not seem like a very serious problem. In fact, however, it turns out to be an extremely difficult one because of the effect which it has on the total cost of a guaranteed income plan. To see what this effect is, we'll take a specific example.

Suppose again that it was decided that a family of four should be guaranteed an income of \$4,000. With this guarantee level we can calculate break-even points for a variety of different reduction rates; the following table shows some of the combinations:

<u>Reduction Rate</u>	<u>Break-Even Point</u>
25%	\$16,000
40	10,000
50	8,000
60	6,666
75	5,333
90	4,444
100	4,000

As can be readily seen, the lower we choose the reduction rate, the higher is the resulting break-even point. So a low reduction rate not only means that low-income families will get more out of the program. It also means that more higher income families will get benefits. The program will not only end up costing more, but it will also be transferring income to families who are relatively less in need.

Moreover, since the break-even point is the income level at which a family stops receiving benefits and starts paying taxes, a high break-even point means that a great many families will be exempted from taxes. So the cost to government of a high break-even point is doubled: It not only must pay benefits to higher income families, but it also loses the taxes which it now receives from them.

Now the consequences of our choice of guarantee level and reduction rate to the total cost of the program become clearer: For any given guarantee level, the lower the reduction rate we choose, the higher will be the total cost of the program. And going at it the other way, it seems pretty clear that for any given reduction rate, the higher guarantee level we choose, the higher the total cost.

If we know beforehand that there is a maximum amount of money which realistically could be made available for a guaranteed income, then we still have a vast range of options which we could propose. We could decide that a high guarantee level was best and we would then have to accept a high reduction rate. Or we could decide on a low reduction rate and then have to take a low guarantee level. Or we could try something in between - a less drastic trade-off between guarantee level and reduction rate, but, inevitably, some kind of trade-off.

And now one more complication enters in: This choice of guarantee levels and reduction rates will have very different consequences for different groups.

For those more or less regularly employed, the minimum income level guaranteed by the program is less important than the reduction rate on earned income applied to it. These persons

need only a relatively small guarantee level since they already have income from their job and the benefit is only intended to "top-up" or supplement this income to make it adequate for their family. However, they especially need a low reduction rate so they can keep as much of their earnings as possible. Thus a relatively low guarantee level combined with a low reduction rate will extend benefits for them further than will a higher guarantee level if it is combined with a higher reduction rate.

On the other hand, for those outside the regular labor force, such as the aged and disabled, whose only income from employment is a very modest amount of casual earnings, the reduction rate applied to these casual earnings is far less important than the guarantee level. For them the overriding need is a high guarantee level that will provide for an adequate income.

This can be illustrated by an example. We'll first look at a program that guarantees a family of four \$5,000, but with a reduction rate of 90%; then we'll look at a program that guarantees the same family only \$2,500 but with a 30% reduction rate.

In the first situation the \$5,000 benefit is reduced by 90¢ for each dollar earned, so a person who earned \$4,800 would have his benefit reduced by \$4,320 and his total income would be \$5,480 (\$4,800 earnings plus \$680 benefit). A person whose only earnings in the year were \$500 would have his benefit reduced by \$450 and the resultant total would be \$5,050 (\$500 earnings plus \$4,550 benefit).

In the second program, on the other hand, with the guarantee level at \$2,500 and the reduction rate at 30%, the person earning \$4,800 would see his benefit reduced by \$1,440 and wind up with \$5,860 (\$4,800 earnings plus \$1,060 benefit); he would therefore be \$380 better off than in the first program. The person able to

earn only \$500 would see a \$150 reduction in his benefit and wind up with \$2,850 (\$500 earnings plus \$2,350 benefits). He would be \$2,200 worse off than under the first program.

The problem of "trading off" or compromising between the interests of the working poor on the one hand and those of the aged and disabled on the other is obviously a serious one. It was the rock upon which most early negative income tax proposals foundered. It was not until the Castonguay-Nepveu report in Québec in 1970 that the two-tiered approach made its first appearance.

The two-tiered approach, using a pure negative income tax model, would involve two negative income tax programs. One would have low guarantee levels and low reduction rates and would be primarily aimed at those with significant earned income (those within the labor force). The other would have high benefit levels and high reduction rates and would be aimed at those with little earned income (those outside the labor force). Access to the first program (lower tier) would probably be based on income alone. Access to the second (upper tier) would probably be based on income and on a person falling into the category of those outside the labor force (however that is defined).

How a negative income tax would work in theory

The actual mechanics of running a negative income tax program would be reasonably simple, in theory. We stress that what follows is theory only.

Any family that thought it was eligible would fill out a declaration of its expected income for the coming year. The

declaration would be similar to a simplified income tax form - in fact, the income tax form could probably be modified so it could serve both functions of collecting taxes from some and determining eligibility for benefits for others.

Since larger families have greater needs than smaller families, payments would increase according to family size. It would work very much like our system of exemptions in income tax: A certain amount would be allowed for each dependent; these amounts might be varied according to the age of the dependent.

Once a family's guarantee level was determined and its expected income from earnings declared, it would only be a matter of applying the reduction rate to earnings and calculating the level of entitlement. (In a two-tiered system, of course, there would be an additional step of determining eligibility for the higher benefit program.) Payments would be made directly from government to the family on a regular basis (i.e., monthly or semi-monthly). At the end of the year the family would fill out an income tax form; at this time it would declare its actual income during the year and, depending on how the actual income compared with the estimate of income upon which entitlements were based, the family would either get a lump-sum payment (if it made less than expected) or owe money to the government (if it made more than expected).

Turning theory into practice

It can't be overemphasized that this is all a theoretical (over-simplified) description of how a negative income tax would work. An actual program would have to be more complex in order to deal effectively with a variety of real situations. For

example, everyone knows that a projection of income a year in advance is not adequate by itself; there will have to be mechanisms for responding quickly to unexpected, erratic shifts of family income. How can this information on income be obtained without at the same time continually harrassing people to report their income?

There are very difficult problems that arise in trying to adjust the income tax system so that taxes begin precisely at the break-even point. The most obvious way of making this adjustment would be to raise the income tax exemptions for an individual and his dependents so that, for each family size, the total of the allowable exemptions exactly equalled the break-even point. The difficulty with this approach is that, since exemptions have to be the same for all taxpayers, regardless of their income, high-income taxpayers would receive substantial tax cuts. In effect there would be a transfer of income to those with high income by reducing the taxes they would have to pay - hardly what a negative income tax was designed to do. Are there other ways of adjusting the tax system without such a consequence?

A great many questions like this, and others equally difficult, would have to be answered before this theory becomes an actual program.

The importance of the theoretical model described in this section is that it is a reasonably effective way of providing income to families without the stigma and the disincentive of the existing welfare system. The issue that is now faced is how to turn this theoretical model into an actual program, and this is the issue which has dominated the social security review.

SUPPORT/SUPPLEMENTATION

The Proposed Programs

After three years of work a general framework for a guaranteed income has begun to emerge out of the social security review. The framework proposes a two-tiered system, with each tier based on the negative income tax model. The lower tier is usually referred to as the supplementation program and is designed for those who are working, but at wages which are insufficient for their families' needs. The upper tier is called the support program and is designed for those who are unable to work or can't find work.

This section will summarize the decisions that have been reached by the federal and provincial governments on these programs. It will also look at some of the proposals which have been put forward by the federal Minister but around which agreement has not been reached.

The reader will undoubtedly be struck by how many questions have still to be answered. Among these, the most obvious and important are: What will be the level of benefits (the guarantee level) for each program? When will the programs be implemented?

On the first question there is no information whatever. Ministerial speeches and conference communiqués have made no suggestions. On the second question there is a general answer given by the federal Minister in recent speeches: The programs will be implemented "as economic conditions permit" - a reply that has been interpreted as meaning sometime around 1978 or 1979. The federal Minister has, however, said he would like to reach agreement with the provinces on the design of the new programs by the summer of 1976.

The Support Program

At the February 1975 federal-provincial welfare ministers conference it was agreed that the support program would be

designed for:

people for whom employment at provincial labour standards cannot or has not been found - whether for example, because the individual is handicapped, or because a job cannot be found within a reasonable radius, or because the individual is a single parent whose family-raising responsibilities make it difficult to take a job outside the home.

At the subsequent conference in April 1975 it was further agreed:

That the support levels would be set by the provinces;

That people on support should receive the rehabilitation and employment services required to make it possible for them to take employment which could be found or created for them ;...

These are the only firm decisions on the support program which have been made. From these it can be seen that support will be a provincially administered program and that it will at least cover all of those persons now eligible for provincial social assistance (welfare).

A clearer indication of how the federal Minister would like to see the support program designed is given by his speech at the February 1975 conference. He listed nine features that should be part of the program:

- 1) Provision for appropriate differentiation between the general support or guaranteed income levels for families of different sizes and with different needs, including differences due to disabilities and age;
- 2) Provision for special or emergency assistance to families for whom the general

support levels, or the general support scheme, are from time to time found to be insufficient;

- 3) Provision for increasing the general support or guaranteed income levels as the cost of living rises;
- 4) Provision that, when the family begins to earn an income, not all the earnings would be treated as a substitute for or a replacement of support payments. This would be accomplished by providing for the retention by the family receiving support of a reasonable amount of miscellaneous earnings, and by providing that, on average, support payments would be reduced by \$3 for every \$4 of family income;
- 5) Provision that, as family earnings increased as a result of more regular employment, and began to approach the support or guarantee levels, increased work incentives would be provided ...;
- 6) Provision that all family income would be taken into account when determining the level of support or guaranteed income required;
- 7) Provision for common technical requirements in the provincial guaranteed income plans including the definitions of income, the determination of what constitutes a family unit, the setting of accounting periods, the establishment of enforcement requirements, and the exchange of information between governments;
- 8) Provision for a proper appeal system for persons seeking or receiving support;
- 9) Provision for ensuring that the beneficiaries in each province are made aware of the contributions being made toward the income and employment plan by Canadian taxpayers as a whole.

Most of these points are self-explanatory, but a few warrant additional comment.

Point (4) proposes a 75% reduction rate in the support program. The Minister's speech, it should be noted, adds the words "on average". What this means is that there need not be a straight 75% reduction rate on each dollar of earnings. A province could, for example, totally exempt the first \$X of earnings and then apply a higher-than-75% reduction rate on earnings above this exemption, as long as the average rate worked out to 75%.

A numerical example might clarify this. Suppose the guarantee level for a family of four were set at \$4,500 (note this is only an illustrative example). With this guarantee level and with a 75% reduction rate the break-even point is then \$6,000. As one option, a province could choose to apply a straight 75% reduction rate. In this case, each dollar earned would be treated the same as every other and would result in a 75¢ reduction in benefits. As another option, a province could totally exempt the first \$1,500 of earnings and then apply a 100% reduction rate on everything above \$1,500. In this case a person could keep all his/her earnings up to \$1,500, but everything above \$1,500 would be deducted dollar-for-dollar from his benefits. The average reduction rate, however, would still be 75%. Or a province could choose any of the alternatives in between that gave an average rate of 75% (e.g. a \$375 exemption followed by an 80% reduction rate; or a \$1,000 exemption followed by a 90% rate; etc.).

Point (5) means that when a family's income reached the level where the family would be better off on supplementation (which would have a lower guarantee level than support, but

also a lower reduction rate) then the family could shift onto supplementation.

Point (7) would provide for some standardization among the provincial programs. It would try to limit the wide disparities that often now exist between one province's assistance program and another's.

It must be stressed that these nine points are only federal proposals. They have not been agreed to by the provinces and we do not know which will finally be made part of the support program and which discarded. But they do reveal something of the federal government's thinking.

The Supplementation Program

The Orange Paper which launched the social security review contained the following proposition that is the basis for the supplementation program:

That the incomes of those who are working but whose incomes are inadequate by reason of family size ... or by reason of the nature of their employment (low-paying self-employment or intermittent or partial employment) should be supplemented under a single, general income supplementation plan, with built-in work incentives.

All that the federal and provincial ministers have been able to agree upon in addition to this proposition is:

That income supplementation should contain strong work incentives in terms both of the rate at which

supplements would be decreased as family income rose, and of the relative income levels assured to people who were working as opposed to those who were on support.

In other words, supplementation should have a relatively low reduction rate and persons on supplementation should always be better off financially than if they quit work and went onto the support program. Nothing else has been agreed upon.

At the February 1975 conference the federal Minister made several proposals - not yet agreed to by the provinces. He suggested that the reduction rate for supplementation should be "something like" 33 1/3%. Furthermore he said the supplementation break-even point should be set "somewhere around" 35-45% above the average provincial guarantee level for support.

The Minister went on to describe six "likely characteristics" of supplementation:

First, (it) should be a single plan, operating across the whole of the country.

Unlike the support program whose benefit levels and other design features will vary from province to province, supplementation should be uniform across all of Canada.

Secondly, eligibility should be based upon family income, subject to the exclusion of people who voluntarily have foregone any real attachment to the labour force.

Anyone (except for some) should be eligible for supplementation solely on the basis of the family's income. The exclusion the

Minister mentions would likely include students and persons who refuse a job, and perhaps strikers.

Thirdly, income supplements paid under the measure would be paid by existing government organizations - those with which the citizen is already dealing or can most conveniently deal. Thus, for example, people receiving guaranteed incomes from provincial social security offices would, when their incomes came to approximate the income guarantee levels, receive the supplement from the same provincial offices.

The idea behind this proposal was that when a person moved from one program (like U.I.C. or welfare) to supplementation it would be easier for him to continue dealing with the same government agency instead of having to make an application to an entirely different one.

Fourthly, income supplementation ... would be harmonized with unemployment insurance insofar as unemployment insurance recipients are concerned, which harmonization would open up a number of options for relating unemployment insurance benefits to the (supplementation program).

What this means is not very clear. It might indicate that supplementation would be available to persons receiving unemployment insurance (i.e., U.I.C. benefits would be treated in a manner comparable to earned income and would be subject to some reduction rate, perhaps 33 1/3% or perhaps a higher rate). The objective would be to make U.I.C. payments (which don't take family size into account) more adequate for larger

families by allowing them part of the supplementation benefit (which would be geared to family size).

Fifthly, the (supplementation program) would generally be harmonized with the tax system over time,...

In other words, the tax system would eventually be adjusted so that income tax was only collected when a family's income reached the supplementation break-even level. In the theoretical model of the negative income tax, of course, this should automatically be the case. But in the real world, where the income tax system and the supplementation program are designed separately, an "overlap" might exist - that is, there might be a band of income in which a family would both receive a supplement and have to pay taxes. What the Minister's proposal implies is that the overlap would eventually be eliminated - either by directly adjusting the tax system or by rebating taxes of families with incomes in the overlap range.

Sixthly, the eligibility of the self-employed under the measure would have to be considered in the light of existing or proposed income maintenance or stabilization plans, designed especially for the self-employed.

In other words, it's not certain (and probably unlikely) that self-employed persons (farmers, for example) would be eligible for supplementation.

Again it is important to keep in mind that these six points are only federal proposals. The provinces have not agreed to them. But they do tell something of how the federal government would like to see supplementation developed.

Completing the Design

As we noted at the start of this section, there are still a great many questions left to be answered about the new programs. Only the barest outline is now visible. It will remain to be seen whether the federal and provincial ministers will be able to complete this outline and design the new programs of support and supplementation that have been the real goal of the social security review.

HISTORY OF THE SOCIAL SECURITY REVIEW
January 1973 to December 1975

The Social Security Review can be broken down into two broad periods. The first extended from January 1973 to October 1974; during this time the review was launched by the federal and provincial governments, federal-provincial working parties were struck to conduct comprehensive studies of various elements of the social security system, and the federal government brought in legislation which raised Family Allowance payments and amended the Canada Pension Plan. The second period of the review began in November 1974 and has continued to the present. Developments during this time have centered on the meetings of the federal and provincial welfare ministers. It has been a period of proposals, counter-proposals, studying of proposals, and some decisions.

This section will try to summarize what has happened in both periods. It is based exclusively on information which is in the public domain. In this sense it is only part of the story; the much more complicated, and undoubtedly much more interesting, story of the private federal-provincial consultations and the various strategies and counter-strategies of the eleven participating governments would require nothing short of a book - a book which will, hopefully, one day be written. As the following will show, however, just keeping track of the publicly-known developments is a long and involved story.

The First Period: January 1973 through October 1974

January 1973

In the Speech from the Throne which opened the federal Parliament, the Government of Canada announced its intention to join with the provinces in a comprehensive review of Canada's social security system. Provincial agreement to conduct such a

review was certain since a meeting of the provincial welfare ministers held the previous November had made a somewhat similar proposal.

April 1973

The federal government published its Working Paper on Social Security (which became known as the Orange Paper) as an initial discussion document to launch the review. The Orange Paper presented a series of suggestions, some specific and some general, which outlined what the federal government hoped would be accomplished in the review. These suggestions included the following:

- a) Raising Family Allowance payments to a new rate of \$20 per child per month, and indexing these payments by the consumer price index; also, permitting provincial variations in the Family Allowance, either according to family size or by the age of the child, provided the average payment per child in each province remained \$20.
- b) Introducing a new program to supplement the wages of those who are working but whose income is inadequate because of family size - that is, a program to supplement the income of the working poor.
- c) Introducing a new program which would replace the existing provincial welfare programs and which would guarantee an income to those whose own income is insufficient because they are unable or not expected to work.
- d) Structuring both of the preceding programs in such a way that there is no disincentive to work; that is,

allowing a family eligible for either program to keep a portion of any earned income so that the family would always benefit from working.

- e) Examining the areas of social services and employment services and identifying gaps and deficiencies in these services.
- f) Introducing a new community employment program "as a means of meeting social needs that are now neglected or inadequately met" and to "provide socially useful employment to people who have been unemployed for an extended period of time".
- g) Doing all of this through a "federal-provincial strategy" which would involve close cooperation and consultation between the federal and provincial governments.

April 1973

The first federal-provincial welfare ministers meeting of the review was held in Ottawa. There was agreement that the federal suggestions contained in the Orange Paper formed an appropriate basis for the review.

As a means of conducting the work of the review, the ministers agreed to set up "working parties" composed of their departmental officials. The three key working parties were those on income security, social services and community employment.

December 1973

The new Family Allowances Act received royal assent and became law. This was the first concrete development in the review. On January 1, 1974, Family Allowances were raised to

\$20 per month. The provinces of Quebec and Alberta chose to take advantage of the provision which allowed for provincial variations; Quebec did this by altering payments according to the number of children in the family and their ages, and Alberta only according to the age of the children.

May 1973 to October 1974

The various working parties held many meetings to discuss the matters which had been assigned to them. There were meetings of federal and provincial deputy ministers and ministers. As well the federal government passed amendments to the Canada Pension Plan which had the effect of increasing both contribution levels and benefits paid under the Plan.

The Second Period: November 1974 to the Present

November 1974

The first of the important "decision-making" federal-provincial welfare ministers meetings was held. From this point discussions began to turn towards specific issues and the shape of the new social security system slowly began to emerge.

In the area of community employment, the federal Minister of Manpower and Immigration - to whose Department the renamed "community employment strategy" had been assigned - announced a developmental phase which was intended to test out, on a pilot-project basis, new approaches to community employment. Twenty communities were to be jointly selected by the federal and provincial governments for these pilot projects. According to the conference communiqué, the "developmental projects ... will be designed both to assist the people involved in developing employment skills, and to bring employers to adapt their

employment practices so as to provide jobs for these people." Since this meeting, communities have been selected and pilot projects have been started. It seems as though the decision to proceed on the pilot projects marked the end of community employment as a concern of the social security review.

The really significant development at the November meeting occurred in the area of income security. The ministers agreed to limit their consideration of possible mechanisms for guaranteeing incomes to three options - in other words, three alternative proposals:

- 1) A single guaranteed income program, based on the negative income tax, which would cover both the working poor and the non-working poor. Such a program was referred to as the unitary system.
- 2) A two-part guaranteed income program, with one part (called the support program) for those who cannot work and the other (called the supplementation program) for those who are working but whose wages are inadequate for their families' needs. Both of the programs would be based on the negative income tax model. This approach was referred to as the two-tiered system.
- 3) A two-part guaranteed income program, similar to the one just described, but with the supplementation program delivered through the income tax system (by means of a mechanism known as a "tax credit").

The ministers instructed their officials to carry out detailed studies of each of these options.

February 1975

The next federal-provincial welfare ministers meeting was held in February. Now the process became particularly complicated because of a mass of federal proposals, provincial counter-proposals, vaguely worded communiqués, and arguments about what was really agreed to.

As was customary, the federal Minister opened the meeting with a speech which put forward a series of specific proposals, on behalf of his government, in regards to the income security programs. These included:

- a) The federal government favored the second option, a two-tiered guaranteed income system with separate programs of support and supplementation.
- b) The support program should be administered by the provinces and the benefit levels should be set by the provinces. There would be criteria for the provincial programs which would have to be worked out and agreed to by the federal government and each of the provincial governments. Among these criteria would be "provisions that, when the family begins to earn an income, not all the earnings would be treated as a substitute for or a replacement of support payments"; to accomplish this, the federal Minister proposed that support payments be reduced by \$3 for every \$4 of earnings.
- c) There should be a single supplementation program for the whole of Canada. Persons eligible for this program would receive payments from whatever level of government (and department) he/she was already dealing with or could most conveniently

deal with. For example, someone who had been receiving unemployment insurance and then got a job (but at wages that entitled him to supplementation) would receive the supplementation from the U.I.C.; a welfare recipient who got a job and who was eligible for supplementation would get the payments from his provincial welfare office. The idea behind this proposal was that when a person moved from one program (like U.I.C. or welfare) to supplementation it would be easier for him to continue dealing with the same government agency instead of having to make an application to an entirely different one.

- d) The supplement would only be intended as a "top-up" to wages so the benefit levels would not, in themselves, have to be adequate for a family with no other income. In other words, everyone receiving benefits from supplementation would already have income from employment; all the program was intended to do was to supplement, or add to, that income so as to make it adequate for the family. The maximum supplement would be reduced by \$1 for every \$3 earned.
- e) The federal government would be prepared to cost-share in the supplementation program (i.e., pay part of the bill) at a rate greater than 50%. However the provinces would still have to pay part of the costs of the new program.
- f) "It will take some time," the federal Minister said, "before it becomes financially and administratively feasible to introduce the

(supplementation program) ... (It) should be implemented within one or two years after the implementation of the (support program)." Newspaper reports in early February had indicated that this particular timetable had been imposed by the federal Cabinet. The federal Minister had wanted to be able to propose the implementation of support in 1976 and supplementation in 1977; his Cabinet, led by the Minister of Finance, had insisted on a postponement of supplementation. It was generally assumed that this timetable meant that supplementation would have to wait until 1978 at the earliest.

The discussions which went on at the conference on these proposals is not known. The communiqué issued at the end of the conference and which summarized the agreements reached by the federal and provincial ministers seemed to indicate a general agreement on the two-tiered approach. It avoided commenting upon any of the other federal proposals

April 1975

The next federal-provincial welfare ministers meeting was held in April and was again opened by a speech by the federal Minister. In this speech he outlined his government's proposals for a cost-sharing mechanism for the new programs. These included a proposal that the federal government would pay 2/3 of the costs of the supplementation program, with the provinces bearing the other 1/3. The proposals for cost-sharing the support program were somewhat more complicated, but would result in the federal government paying between 55 to 65% of the total costs of support.

Since the jurisdictional problem around supplementation (i.e., what level of government, federal or provincial, would actually administer the program) was a contentious one, he proposed that this be left an open question at the moment.

The response of the provinces to these proposals and the proposals of the previous February were widely reported in newspaper accounts. Quebec's minister spoke out in strong terms against the intrusion of the federal government in what his province viewed as an exclusively provincial responsibility. Several provinces insisted that they had never firmly agreed to a two-tiered system and that they continued to favor a unitary system. There were some strong objections to the delay in the implementation of the supplementation program. Other provinces objected to the idea of the provincial governments having to contribute towards a federal supplementation program; the poorer provinces in particular argued that they couldn't afford the income transfer program they already had, and that paying part of the costs of a new federal program was out of the question. The social security review was in serious jeopardy.

In the end, however, the ministers agreed that the review should continue. The conference communiqué was more than ordinarily vague on details. It expressed agreement that support should be run by the provinces. It also expressed agreement that there should be a supplementation program, but said nothing as to who should administer the program, how the costs should be shared, or whether it should be a separate program or part of a unitary system. The communiqué stated that the ministers planned to meet again in early September to discuss the undecided questions. The September meeting was subsequently postponed and is now scheduled for February.

The April federal-provincial welfare ministers meeting did produce some concrete results in the area of social services. Up to this point it had seemed that the work on social services was getting nowhere. The working party had prepared a report for the November conference, but nothing had been seen of this report publicly. Conference communiqués in November and February contained only minor references to social services.

In his opening speech to the April conference, however, the federal Minister announced his government's intent to enter into a new cost-sharing arrangement for social services. Services would be taken out of the Canada Assistance Plan and a new Social Services Act would be written at the federal level. The Act would leave the federal share of the cost of services at 50%, but the range of services was to be significantly expanded. The new Act would set out five categories of services to be cost-shared:

- 1) Services available to everyone without charge (e.g. information and referral services).
- 2) Services available to specified groups, without charge (e.g. child welfare services; social integration centres for the aged, native people, etc.).
- 3) Services available to specified groups, with charge determined by an income-test (e.g. day-care; meals-on-wheels and homemakers for the aged).
- 4) Services available to persons on federal or provincial guaranteed income programs.
- 5) "Services of a developmental or preventive category for defined communities" (e.g. advocacy, self-help, social action, community development).

The first four categories encompassed all of the traditional social services. The fifth category marked an important expansion of the services which could be cost-shared.

The conference communiqué expressed agreement by all the governments on these proposals. The new Act would be drafted over the balance of the year and introduced in the federal Parliament in 1976.

November and December 1975

In several speeches the federal Minister spoke of the work of the social security review extending to the summer of 1976. He hoped agreement could be reached on the details of the support/supplementation programs by that time. The intent of the federal government, he said, was to introduce support and supplementation "as economic conditions permit". It was speculated this meant implementation of both support and supplementation sometime around 1978 or 1979.

